

# Automated Commercial Environment—Requirements Recommendation

<b>Date:</b>	October 5, 2001
<b>Number:</b>	REV-003 (revised October 19, 2001)
<b>Requestor:</b>	TSN Revenue Committee
<b>Customs Co-Chair:</b>	Robert B. Hamilton
<b>Trade Co-Chair:</b>	James Philips

## Requirement

An electronic mechanism needs to provide for the filing, amending, canceling and monitoring of bonds. This document begins with the January 21, 1999, U.S. Customs Service Electronic Bond Requirements, Final Report, which is incorporated by reference and expanded as follows.

An electronic bond system would have to provide certain, basic functionality:

1. Filing with and acceptance by Customs of bonds.
2. Filing with and acceptance by Customs of riders and amendments.
3. Filing with and acceptance by Customs of termination requests from importers or their customs brokers and sureties in compliance with the regulations.
4. Filing with and acceptance by Customs of reinsurance documents and bonds with co-sureties.
5. Queries and Downloads.
6. Monitoring for bond sufficiency.
7. Appropriate electronic notifications in connection with these transactions.

## Business Need

Essentially, the filing of bonds with Customs has not changed in 40 years and is a paper intensive process. The surety industry already deals with other Federal, State and Local Government agencies in paperless environments where bonds are required by law or regulation. To move forward with its vision of a truly paperless environment, Customs must automate the bond process. An electronic bond process would streamline and reduce lag times associated with the filing of bonds and riders, and permit Customs and the surety industry to do a better job of managing their bonds for accuracy and sufficiency.

## Technical Need

Because the electronic record will be the only record of the bond's existence the system must preserve the electronic bond record as originally filed.

*A Surety Authorization File* will allow each surety to authorize customs brokers to file single transaction and continuous bonds and govern limitations on that authority. The authorizations for single transaction and continuous bonds will be separate and may vary in limitations. (The January 21, 1999 report under section 3.1.1 incorrectly describes this as a Power of Attorney file and should be renamed.)

There must be a clear and unambiguous connection between the importer of record, the bond principal and the entry or other activities secured by the bond. The system must provide for certain changes to the bond that may be made by rider. All such changes must be prospective and an historical record of this activity preserved in the system.

There also must be flexibility to add new riders to the system if there will be a change to the underlying bond contract. An example would be the periodic payment proposal. Before an importer begins using any extended payment option beyond 10 days, the system must verify that a bond rider is on file for that usage.

#### Benefits

Both Customs and the trade would benefit from an electronic bond system. The trade and Customs will realize faster, more accurate, more efficient filing of bonds and riders. An electronic bond environment will permit sureties to better monitor liability, address claim issues, and manage their Customs bond programs. Customs will be able to reduce the manpower associated with the handling of bonds, eliminate the storage requirements for paper bonds, better manage the bonds (avoiding technical deficiencies and missing bonds), and improve bond sufficiency monitoring (decreasing write-off from bond saturation).

#### Risks

The data integrity is the most significant risk associated with this system. In the event of a claim there must be system safeguards to insure there were no unauthorized alterations to the original bond such as discrepancies in bond amounts, effective and termination dates, surety etc.

#### Related Subcommittees

Entry, Accounts

Priority:    **Critical**   ☒                      **High**   ☐                      **Medium**   ☐                      **Low**   ☐

#### Comments

From: Chip Bown, Tower Group International

1. In the Technical Need section, the following paragraph reads:

A Surety Authorization File will allow each surety to authorize customs brokers to file single transaction and continuous bonds and govern limitations on that authority. The authorizations for single transaction and continuous bonds will be separate and may vary in limitations.

I believe that the concept of limitations on the authority is a business practice between two parties, the sureties and the brokers as their agents. As a principle in conducting of business, I don't believe that there should be government intervention/monitoring of limitations and to have the government, as a third party, intercede in a business matter that should be responsibility of the two involved parties seems wrong. Its the age old question of "laissez faire".

2. Regarding inclusion/reference to the Grant-Thorton report:

Comment section should read that the report is included as an indicator of general direction, establishment of electronic bond functionality, and the specifics have yet to be vetted by the entire trade community.